6 Resource Transfers from Agriculture

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1 INTRODUCTION

A central dogma in development economics stressed the role of resource transfers from agriculture in the process of structural transformation: saving from the sector is supposed to support the major proportion of capital formation, especially at low levels of per capita income. In the absence of substantial external aid, reliance on agricultural resource transfers appears to be the inevitable course for a predominantly agricultural developing country.

Much of the contemporary thinking on the role of the agricultural sector in financing capital formation has been based on the experiences of Japan and Soviet Russia in their early stages of industrialisation. It is commonly accepted that economic growth during the Meiji era was financed by a growing pool of savings in agriculture which were effectively mobilised through Japan's feudalistic system and the imposition of sizeable land taxes. In the Soviet case, the idea of mobilising agricultural surplus dates back to the Soviet collectivisation debate and the economist Evgeny Preobrazhensky (1965) who advocated 'primitive socialist accumulation' in which peasants would provide the saving to support rapid capital formation in the industrial sector.

More recent studies on the Japanese and Soviet experience, however, cast some doubt on the significance of agricultural savings in financing capital formation during these periods. While it is true that the land tax formed the dominant portion of government revenue in Meiji times, Ishikawa (1967) points out that, during the early years of the Meiji era, the agricultural sector benefited from substantial government expenditure in river improvement and flood control, which are not usually

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counted in government expenditure in agriculture. More recent studies also indicate that the agricultural sector may have been a net recipient of funds via financial institutions. Thus, even if the net result of resource flows between the farm and non-farm sectors was an outflow, its magnitude does not seem to be so large as to be the major source of financing Japan’s early industrialisation. Similarly, Ellman (1975), on the basis of historical evidence, contested the Preobrazhensky thesis of the First Soviet Five-Year Plan. The resources for the massive investment push in the USSR between 1928 and 1933 largely came from workers’ forced saving under inflation; surviving peasants under the collectivisation programme saved relatively little. In addition, estimates of net resource flows for India, mainland China, Taiwan and Japan indicate that the agricultural sector may not always be a source of net resource flows, and in some cases, may even have been a net recipient (Ishikawa, 1967, 1986).

Support for the Preobrazhensky thesis in capitalist economies is given by T. H. Lee’s (1971) seminal study, which showed that during the first half of the twentieth century, agricultural saving in Taiwan exceeded total investment, at least until after the Second World War. A few other time-series studies have been undertaken following Lee’s, notably Sharpley (1979) for Kenya, de Leon (1984) and others for the Philippines, and Easterly (1984) and others for Mexico. Sharpley reports ratios of agricultural saving to investment in the range of 60 to 100 per cent: the other two studies give numbers far lower. On the basis of time-series evidence, then, the importance of agricultural saving is not uniform across countries.

Another issue is the role of shifts in the agricultural-non-agricultural terms of trade in extracting resources from agriculture. Preobrazhensky proposed that the state can, and should, increase its surplus by turning the terms of trade against peasants. Time-series studies emphasise the importance of terms of trade effects: a rise in non-agricultural prices will increase the cost of final consumption goods and intermediate input purchases to agriculture, and effectively pull resources from the sector. The recent literature on the ‘price scissors’ (for example, Sah and Stiglitz, 1984) also stresses the role of the terms of trade and supports Preobrazhensky’s claim that the state can increase accumulation by increasing the size of the scissors. Despite the existence of theoretical approaches of the Sah and Stiglitz variety, and the above-mentioned time-series studies, there have been relatively few attempts to quantify empirically the size and relative importance of the resource transfers, and their response to terms of trade changes. In addition, as